

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE ACCOUNTING OFFICE COMPLIANCE WITH
PERSONAL CHECK CASHING PROCEDURES**

Report No. 97-136

April 28, 1997

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

19991026 069

Department of Defense

DTIC QUALITY INSPECTED 4

AAI00-01-0164

Additional Information and Copies

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD. If you have questions about the audit or wish to obtain additional copies of the draft report, contact Mr. Richard B. Bird, Audit Program Director, at (703) 604-8868 (DSN 664-8868) or Mr. Jack L. Armstrong, Audit Project Manager, at (703) 542-3846 (DSN 699-3846).

Suggestions for Audits

To suggest ideas or request future audits, contact the Planning and Coordination Branch of the Analysis, Planning, and Technical Support Directorate at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: APTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending e-mail to Hotline@DODIG.OSD.MIL; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

CONUS
DAO
DFAS

Continental United States
Defense Accounting Office
Defense Finance and Accounting Service



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



Report No. 97-136

April 28, 1997

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE**

SUBJECT: Report on Defense Accounting Office Compliance With Personal Check
Cashing Procedures

Introduction

We are providing this report for your information and use. On May 4, 1995, the Defense Finance and Accounting Service (DFAS) revised the procedures for the defense accounting offices at disbursing activities to use in cashing personal checks. The procedures were revised to improve internal controls and reduce the amounts of cash maintained by defense accounting offices. DFAS requested the audit to determine whether defense accounting offices in the Continental United States (CONUS), overseas, and afloat were in compliance with the revised personal check cashing procedures.

Audit Results

We found no significant deviations from DFAS procedures for cashing personal checks, and DFAS procedures were effective. The DFAS procedures helped minimize the need for cash for inadvertent loans to DoD personnel, the loss of DoD funds, and the need for additional finance personnel. We found that:

- o defense accounting offices at Army locations cashed personal checks only when military personnel were deployed;
- o defense accounting offices at Navy disbursing activities both overseas and afloat cashed personal checks and had not followed all DFAS procedures; and
- o defense accounting offices at Air Force locations did not cash personal checks.

Audit Objectives

The primary objective of the audit was to determine whether defense accounting offices were in compliance with DFAS procedures for cashing personal checks. We also reviewed the management control program and compliance with laws and regulations related to the primary audit objective.

Scope and Methodology

Scope. We reviewed compliance with personal check cashing procedures at defense accounting offices in CONUS, overseas, and afloat for the Army, the Navy, and the Air Force. We visited defense accounting offices and reviewed reports issued by examiners in the customer service division at the DFAS Indianapolis Center, Indianapolis, Indiana, and the Commander in Chief, U.S. Atlantic Fleet.

Reviews at Disbursing Offices. We reviewed supporting documentation such as daily cash and personal check registers, cash reconciliations, bank deposits, cash reports, cash collection vouchers, and bad check registers. The records selected for review had been prepared within 30 days before the auditors visited a defense accounting office (DAO). We interviewed disbursing officers and DAO personnel and observed disbursing operations at each DAO visited. Our review of operations included inspecting the contents of DAO safes and vaults. We also reviewed procedures for cashing checks.

DFAS Indianapolis Center. We used information obtained by the customer service division at the DFAS Indianapolis Center. The customer service division performed annual DAO inspections at Army installations in CONUS and Hawaii. The inspections evaluated accounting, military pay, collection, and disbursing operations. Inspections of disbursing operations included personal check cashing, recovery of dishonored checks, and collection procedures when applicable. We reviewed 10 of 29 inspection reports issued by the customer service division after October 1, 1995. We also discussed inspection procedures and results with inspectors in the customer service division. See the "Discussion" section for summaries of these inspection reports.

Atlantic Fleet Reports. We used information in reports prepared by the Navy Administration and Examination Branch, Logistics, for the Atlantic Fleet. The Atlantic Fleet performed annual evaluations of Navy ships, and evaluated shore activities every 18 months. These examinations included the steps involved in personal check cashing and recovery of dishonored checks. "Disbursing/Personnel Examination Reports" were prepared and sent to the commanding officer of the activity being examined. The examiners maintained detailed working papers supporting their examinations, which we reviewed as necessary. The examination group used a standardized guide to examine DAO compliance with DFAS check cashing procedures. We reviewed 33 of 68 Atlantic Fleet reports issued after October 1, 1995. Of the reports we reviewed, 7 were for shore activities and 26 were for United States Ships afloat. See the "Discussion" section for summaries of these reports.

Audit Period and Standards. We performed this financial-related audit from January 25 through October 31, 1996. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such

tests of management controls as were considered necessary. We did not use statistical sampling procedures or rely on computer-processed data to conduct the audit.

Organizations and Individuals Visited or Contacted

We visited a number of DoD activities during the audit. We performed detailed reviews at nine Army, four Navy, and four Air Force defense accounting offices. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls to provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the DAO implementation of DFAS management controls over cashing personal checks. We assessed the adequacy of the management self-evaluation of those controls.

Adequacy of Management Controls. DFAS management controls over defense accounting offices cashing personal checks were generally adequate as they applied to the primary audit objective. Navy defense accounting offices overseas and afloat did not fully comply with DFAS personal check cashing procedures; however, no material deficiencies were found. See the "Discussion" section of this report for details.

Adequacy of Management Self-Evaluation. DFAS officials did not identify personal check cashing procedures as an assessable unit. However, the DFAS Cleveland Center, Cleveland, Ohio; the DFAS Denver Center, Denver, Colorado; and the DFAS Indianapolis Center identified DAO disbursing procedures as assessable units. Check cashing procedures were included as part of disbursing operations. DFAS did not identify any material weaknesses in personal check cashing procedures, and none were identified during this audit.

Prior Audits and Other Reviews

The Inspector General, DoD, has not issued any audit reports on this subject in the past 5 years. The Naval Audit Service issued three reports that addressed personal check cashing procedures. All three Naval Audit Service reports stated that defense accounting offices were cashing personal checks, although other check cashing services were available. These reports are discussed in Enclosure 1.

Audit Background

DFAS provides finance and accounting services for DoD Components under the direction and authority of the Under Secretary of Defense (Comptroller). DFAS has major finance and accounting centers in Cleveland, Ohio; Columbus, Ohio; Denver, Colorado; Indianapolis, Indiana; and Kansas City, Missouri. Under the direction of the DFAS Centers, defense accounting offices provide financial services at the installation or ship level. A disbursing officer is a military or civilian employee designated to disburse funds and render accounts according to laws and regulations.

Personal Check Cashing Procedures. On May 4, 1995, DFAS issued a memorandum, "Revised Procedures for Cashing Personal Checks Overseas and Afloat by DoD Disbursing Activities." The revised procedures, which were effective immediately, specified each DAO that was authorized to cash personal checks. DFAS also included new procedures for obtaining written consent for immediate collection against military and civilian pay for dishonored checks. The revised procedures are incorporated in the "DoD Financial Management Regulation," DoD 7000.14-R, volume 5, "Disbursing Policy and Procedures," chapter 4, May 1996.

Defense Accounting Offices Not Authorized to Cash Personal Checks. Defense accounting offices in CONUS are not authorized to cash personal checks unless a waiver is approved by DFAS. At the time of the audit, no waivers had been approved.

Defense Accounting Offices Authorized to Cash Personal Checks. A commander may authorize a DAO to provide check cashing services to military and civilian personnel of the U.S. Government at overseas locations or on ships afloat. A DAO on a Navy ship may cash personal checks for crew members who are nonresidents of the area when the ship is in a U.S. port. A DAO may also cash personal checks when a military unit is engaged in training or exercises. However, banking facilities must be inadequate or not available to provide check cashing services.

Commanders are to ensure that internal controls are adequate to prevent the fraudulent cashing of negotiable instruments. They should also set maximum dollar amounts and establish procedures for suspending check cashing privileges for writers of dishonored checks. A dishonored check is one that does not clear the bank because of insufficient funds or an administrative hold on the account.

Discussion

We found no significant deviations from DFAS procedures for cashing personal checks, and DFAS procedures were effective. See "Management Controls" for the definition of "material." We found that:

o defense accounting offices at Army locations cashed personal checks only when military personnel were deployed;

o defense accounting offices at Navy activities, both overseas and afloat, cashed personal checks and had not followed all DFAS procedures; and

o defense accounting offices at Air Force locations did not cash personal checks.

Army Locations. Defense accounting offices at Army installations were generally in compliance with DFAS procedures. We visited eight defense accounting offices in CONUS and one overseas. We reviewed 10 inspection reports from the DFAS Indianapolis Center and found only 1 activity that cashed personal checks. DFAS and Army personnel informed us that personal checks were not cashed in CONUS and were cashed only for military personnel who were deployed.

One DAO at Fort Hood, Texas, cashed personal checks for two deployments. The first was a short-term deployment exercise to West Fort Hood, 2 to 3 miles from the main installation. DAO personnel did not believe that a waiver was required from DFAS. Although cashing the checks was not in accordance with DFAS procedures, no dishonored personal checks were written.

The second deployment was overseas, and military personnel did not have access to adequate banking facilities. To collect funds on dishonored checks amounting to \$3,100, the DAO was establishing payroll deductions for 25 military personnel.

Navy Locations. At five defense accounting offices in CONUS and one overseas, personal checks were not cashed. However, the following table shows that 1 defense accounting office overseas and 30 defense accounting offices afloat cashed personal checks.

Personal Check Cashing by Navy Defense Accounting Offices

| | <u>Not Cashing</u> | <u>Cashing</u> | <u>Total</u> |
|---------------|--------------------|----------------|--------------|
| CONUS | 5 | 0 | 5 |
| Afloat | 0 | 30 | 30 |
| Overseas | <u>1</u> | <u>1</u> | <u>2</u> |
| Totals | 6 | 31 | 37 |

Of the 30 defense accounting offices that cashed personal checks, 20 had 1 or more infractions of DoD check cashing procedures. Of the 20 defense accounting offices that did not follow DFAS procedures, 1 was overseas and 19 were afloat. The infractions were as follows.

-
- o Defense accounting offices lacked personal check cashing authority.
 - o Defense accounting offices lacked payroll deduction authority.
 - o Lists of dishonored checks and copies of those checks were not adequately maintained.
 - o Dishonored checks were not collected promptly.
 - o Checks were made payable to an improper payee.

Check Cashing Authority. Atlantic Fleet reports showed that on 1 of 26 ships, the DAO had no written approval from the commander to cash personal checks, as required by DFAS procedures. At the four Pacific Fleet ships we visited, the DAO had written approval from the commander of the ship.

Defense accounting offices aboard ships routinely cashed personal checks, although the ships were in home port in CONUS. Navy personnel considered ships in home port to be afloat. DFAS procedures did not allow personal checks to be cashed on ships in home port, except when nonresident personnel did not have access to adequate banking facilities. Two Pacific Fleet ships we visited had been in home port for more than 9 months, and the defense accounting offices cashed personal checks drawn on local banks.

This deviation from the revised DFAS procedures was brought to the attention of Navy personnel. Navy personnel in the Atlantic and Pacific Fleets said they were aware of the problem and would take corrective action.

Payroll Deduction Authority. The Atlantic Fleet reported that 10 of 26 ships did not obtain consent to deduct the amounts of dishonored personal checks from Service members' pay. DFAS procedures require that all authorized military and civilian personnel who have requested check cashing privileges give their written consent for immediate collection against their pay for the amount of dishonored checks. Two options are available for the DAO to obtain consent: the personal checks may be stamped, or a Personal Check Cashing Agreement (DFAS Form 706) may be signed by the Service member.

Dishonored Check Listings. Atlantic Fleet reports showed that ships did not maintain a bad check list or post dishonored checks to such a list. Two of the Pacific Fleet ships did not keep copies of the dishonored checks. On one Pacific Fleet ship, the dishonored check list did not adhere to the ship's policy. On this ship, the bad check list did not include the name of a disbursing clerk who had written a dishonored check. No DoD funds were reported as lost because each DAO recovered the amount of the dishonored checks. DFAS procedures require that dishonored checks be posted to a bad check list, and that copies of dishonored checks be maintained.

Dishonored Check Collections. Three Atlantic Fleet ships did not promptly establish payroll deductions after dishonored checks were returned. The defense accounting offices on the three ships eventually established the

payroll deductions. The DAO at Naples, Italy, did not establish payroll deductions promptly after dishonored checks were returned, and collections were not made. The DAO at Naples had \$1,898.95 in dishonored checks on hand. DFAS procedures require each DAO to take prompt action to collect the amounts of dishonored checks from Service members' pay.

Improper Payee. DFAS procedures require that personal checks be made payable to the DAO. The Atlantic Fleet reports indicated that 8 of the 26 ships had checks that were not written to the DAO. Because the defense accounting offices were able to make the deposits, no funds were lost.

Air Force Locations. Defense accounting offices at Air Force installations were in compliance with DFAS procedures. We visited two defense accounting offices in CONUS and two overseas. We found no evidence that personal checks were being cashed. DFAS and Air Force personnel informed us that personal checks were not cashed in CONUS and were cashed only for military personnel who were deployed overseas.

Conclusion

Although infractions of DFAS check cashing procedures occurred, the infractions were not material. Personnel at the Atlantic and Pacific Fleets were aware that they were not in compliance with DFAS procedures and were taking corrective actions. As a result, no recommendations were made for corrective action. The revised DFAS check cashing procedures were generally effective, but continued enforcement is necessary. The DFAS personal check cashing procedures helped minimize the need for cash for inadvertent loans to DoD personnel, the loss of DoD funds, and the need for additional finance personnel.

Management Comments

We provided a draft of this report to management on February 7, 1997. Because the report contained no recommendations, management comments were not required, and none were received. Therefore, we are publishing this memorandum report in final form.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. Richard B. Bird, Audit Program Director, at (703) 604-9145 (DSN 664-9145) or Jack L. Armstrong, Audit Project Manager, at (317) 542-3846 (DSN 699-3846). See Enclosure 2 for the report distribution. Audit team members are listed on the inside back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Summary of Prior Audits and Other Reviews

Naval Audit Service Report No. 016-96. This report, "Navy-Processed Vendor Payments at Personnel Support Activity Detachment, Sigonella, Italy," was issued on November 29, 1995. The auditors reviewed check cashing procedures as part of cash management. The DAO provided check cashing as a customer service, despite the availability of on-base facilities. The DAO did not comply with DFAS procedures and did not have authorization from the base commanding officer. The report recommended that the DAO stop providing check cashing services. The base commanding officer subsequently authorized the continuation of check cashing services.

Naval Audit Service Report No. 011-96. This report, "Navy-Processed Vendor Payments at Personnel Support Activity Detachment, Naples, Italy," was issued on November 27, 1995. The auditors reviewed check cashing procedures as a part of cash management. The DAO did not comply with DFAS procedures and did not have authorization from the base commanding officer. The DAO provided check cashing as a customer service, despite the availability of on-base facilities. The report recommended that the DAO stop providing check cashing services. The base commanding officer authorized the continuation of services upon justification of inadequate banking facilities, which met the intent of the recommendation.

Naval Audit Service Report No. 010-96. This report, "Navy-Processed Vendor Payments at Personnel Support Activity Detachment, Rota, Spain," was issued on November 13, 1995. The auditors reviewed check cashing as a part of cash management. Check cashing was provided as a customer service, despite the availability of on-base facilities. The DAO did not comply with DFAS procedures and did not have authorization from the base commanding officer. The report recommended that the DAO stop providing check cashing services. The base commanding officer authorized the continuation of services upon justification of inadequate banking facilities, which met the intent of the recommendation.

Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Commander in Chief, U.S. Atlantic Fleet
Commander in Chief, U.S. Pacific Fleet
Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Inspector General, National Imagery and Mapping Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing , DoD.

F. Jay Lane
Richard B. Bird
Jack L. Armstrong
Leslie M. Barnes
John E. Aber
James W. Chunn
Audrey M. Spear
Susanne B. Allen

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Defense Accounting Office Compliance with Personal Check Cashing Procedures

B. DATE Report Downloaded From the Internet: 10/26/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 10/26/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.